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STATE PASS USAID
TREASURY FOR LUKAS KOHLER
USTR FOR LAURIE-ANN AGAMA

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SUBJECT: USAID CONFERENCE HIGHLIGHTS OPPORTUNITIES FOR
INCREASED REMITTANCES AND TRADE IN WEST AFRICA

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Summary

¶1. USAID sponsored a conference and technology fair in Accra, March 30-31, 2006, to disseminate research highlighting the opportunities and issues for increased remittances and trade into and within West Africa. The conference goal was to discuss ways for the private sector to access more of the \$10 billion dollar estimated remittances and trade settlement market in Ghana, Mali, Nigeria and Senegal, and to increase the net and gross flows of remittances to Ghana and enhance their development impact. Over 200 individuals representing the financial services sector, government, donors, academia, and business and trade associations, participated in the conference. West African participants from the financial sector showed great interest in the research and market opportunities presented, but emphasized that governments in the region must create the appropriate environment. The conference highlighted the serious challenges traders and private individuals face when trying to conduct international financial transactions. The text of speeches given and research papers presented at the conference will be posted on the watradehub.com website. End Summary.

¶2. From March 30-31, 2006, Accra was host to "The Accra Regional Forum on Remittances and Trade." USAID sponsored the conference, and the GoG and Economic Community of West African States (ECOWAS) co-hosted. The conference goal was to engage financial sector actors, policy makers and donors in discussing the issues and opportunities for increased remittances and trade into and within West Africa, specifically Ghana, Mali, Nigeria, and Senegal, and to increase the net and gross flows of remittances to Ghana, enhancing their development impact.

¶3. USG participation included opening remarks by Ambassador Bridgewater and closing remarks from the USAID West Africa Mission Director. USAID, State, and Treasury officials based in Ghana and Senegal attended the conference. West African Government officials, representatives from the UNDP and the International Migration Office, as well as international donors such as the UK's DFID also attended. However the overwhelming attendance was from the private sector, representing national and international commercial banks, money transfer companies, microfinance institutions, and trade associations interested in expanding their operations.

14. Ambassador Bridgewater opened the conference citing U.S. assistance to Africa in support of financial sector reform and trade, and highlighting key research findings including that 10% of West Africans work outside their country of origin and conduct an estimated \$10 billion in remittances and trade settlements each year in the region, mostly outside of the formal economy. Ghana receives more than \$1 billion a year in remittances from private individuals living abroad, and these remittances are unique in that the amounts sent continue to grow over time. The Ambassador ended her remarks with a request for the conference participants to focus on concrete steps to create the right environment to funnel more financial resources into the private sector so they can play a more significant role in West Africa's development.

15. Other opening ceremony speakers included The Ambassador of the Netherlands to Ghana, the Governor of the Bank of Ghana, Togo's National Director of the Central Bank of West African States, and the Director General of the West African Monetary Institute. The President of Ghana was represented by Ghana's Minister of Interior. Opening ceremony speakers covered topics including the connection between migration and economic development, the need to implement policies that will mitigate migration by reducing poverty and increasing economic growth, the need to understand how remittances can be used to support development, costs related to money transfers and financial transactions in the region, the pace of regional economic integration, data needs on remittances and financial transactions, and the political will required for reform.

16. In side sessions, USAID-sponsored researchers presented the findings of research conducted on remittances to Ghana from the U.S., Europe and Canada, and on remittances and trade settlements between the countries of Ghana, Mali, Nigeria and Senegal. Conference working groups developed recommendations on policies and actions to pursue to enable the private sector to attract more remittances and trade

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settlement transactions. The technology fair allowed money transfer companies from Latin America, Europe, West Africa and the U.S. to demonstrate the latest technology used to transfer money internationally.

RESEARCH FINDINGS: ENABLING ENVIRONMENT HINDERING FORMAL
TRADE SETTLEMENTS AND REMITTANCE FLOWS

17. The researchers presented two sets of findings at the conference. The first was specific to remittances to Ghana from Germany, U.S., and UK, and the second was based on research on remittances and trade within the West African countries of Ghana, Mali, Nigeria and Senegal.

18. (U) The Ghana-specific research focused on the legal and regulatory framework in Ghana that controls the remittances market, the financial institutions that process remittances to Ghana, and characteristics of remittance senders and receivers. Dr. Manuel Orozco of Inter-American Dialogue, one of the world's premiere remittance experts, pointed out that remittances are not a solution for economic growth in developing economies, and that the ability to use remittances productively in a country increases with improved economic structures. Ghana's immigrants are unique in that they remain more engaged in their home country in comparison with other immigrant groups, with many owning property in Ghana and most sending more money to recipients over time. Income, age and level of engagement in the home country are the primary determinants of the amount of funds sent home.

19. Regional research on remittances and trade showed that the value of financial transactions between Ghana, Mali, Nigeria and Senegal amounts to \$2 billion annually in remittances from migrant laborers and perhaps as much as \$8 billion in trade settlements. Overly restrictive government policies, the inconvertibility of currencies in the region, and

corruption have the effect of driving most of this potentially legitimate business into the informal economy.

¶10. Small and medium-sized businesses have the most difficulty gaining access to formal mechanisms and institutions that could provide business loans and financial settlements services. Microfinance institutions and credit unions that service part of this market are operating under financial regulations that make it difficult to service the full needs of their clients, with the settlement of regional transactions particularly difficult. Technology may provide options that will encourage greater use of formal systems. Researchers noted the irony of low levels of regional integration given traditionally high levels of migration and mobility of traders within the region. They charged government and private institutions with neglecting the financial needs of regional traders and individuals in the region.

¶11. The report provided new insight into the impact of corruption on trade. Businesses in Ghana and Nigeria estimated that 10% or more of their costs go to under-the-table payments and kickbacks to government officials. The report also found evidence that officials in Ghana who are reluctant to accept bribes at first eventually come to rely on bribes to make up for low salaries.

RECOMMENDATIONS: ENCOURAGE COMPETITION, FINANCIAL SECTOR
POLICY REFORM, IMPROVED PRODUCTS, PILOT PROGRAMS

¶12. For Ghana, researchers suggested that new banking products, banking reform, formation of an industry clearing house, and encouraging hometown associations of Ghanaians overseas could increase the gross and net flows of remittances to Ghana, and enhance their developmental impact. Specific recommendations included improving rates on savings instruments, steering away from exclusive arrangements with banks by remittance companies, liberalizing foreign exchange policy and allowing for savings accounts in different currencies.

¶13. Regional research identified short and long-term recommendations. Short-term recommendations included increasing government and financial institution awareness of regional traders and migrants demand for financial services, raising awareness through successful pilot projects for cross border payments, providing financial education to financial services providers and migrants, liberalizing foreign

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exchange policies at a national and regional level using Ghana's new foreign exchange law as a possible model for the region, and encouraging currency convertibility between countries that conduct significant trade with each other (such as Ghana and Nigeria). Longer-term recommendations included improving data to measure the flow of money resulting from trade settlements and remittances regionally, and streamlining documentation to facilitate trade within the region.

COMMENT: CONFERENCE EXEMPLIFIES THE CHALLENGES DISCUSSED

¶14. Unwittingly, the conference and technology fair demonstrated some of the challenges under discussion that hinder both investment in the financial service sector and trade in West Africa. The internet service at the hotel was too slow for some of the money transfer firms to demonstrate their technology. The electricity went out twice during the event. Conference participants were shocked to be advised against using credit or ATM cards anywhere in Ghana due to fraud. Despite these challenges, the conference was a positive step forward. It provided the private sector and governments in the region with data needed to understand the motivations behind remittance senders and receivers. It also highlighted the market opportunity for financial services for the regional remittance and trade markets, and the policy

reforms needed to change the status quo. Private companies thanked USAID for conducting the research and engaging governments in discussions on needed financial sector reform.

Activities supporting increased remittance flows to Ghana, as well as financial sector reform that supports regional formal trade and remittances, are both clearly needed to allow the private sector to take advantage of the enormous financial service opportunity that exists and is growing in West Africa. End Comment.

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